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M E M O R A N D U M

TO: Governor Paul R. LePage
Members, Legislative Council
Members, Joint Standing Committee on Appropriations and Financial Affairs
Members, Joint Standing Committee on Taxation

FROM: Commissioner Alexander E. Porteous
Department of Administrative & Financial Services

DATE: September 26, 2018

SUBJECT: Revenues – August

August General Fund revenues were over budget by \$14.5 million, or 8.3 percent. Through the first two months of fiscal year 2018-19, General Fund revenues are over budget by \$35.3 million, or 6.2 percent. Compared to the first two months of the prior fiscal year, General Fund revenues increased by 9.3 percent (+\$51.2 million).

July taxable sales (August revenue) increased 6.1 percent over last year. For the month, sales and use and service provider taxes, combined, were over budget by \$5.9 million, or 3.9%. Tourism-related sales, specifically those tied to restaurants and lodging, were relatively weak—increasing by 3.5 percent and 0.3 percent, respectively. By contrast, building supply sales (+9.2 percent) were strong and bounced back from last month, and the other retail sales category (+16 percent) continues to experience robust year-over-year results. Auto/Transportation sales rebounded in July, increasing 5.6 percent over last July. Business operating sales surged in July, growing 17.4 percent year-over-year. The growth of business operating in recent months may be the result of increased investment by businesses in response to the Federal Tax Cuts and Jobs Act (TCJA).

Individual income tax revenues were over budget in August by \$2.6 million with significant positive variances to the forecast in final payments (+\$2.9 million) and refunds (+\$1.2 million) more than offsetting negative variances for withholding (-\$1 million), fiduciary (-\$0.3 million), and estimated payments (-\$0.1 million).

The third estimated payment of the calendar year was due September 15th and may be affected by the recent passage of the tax conformity bill (L.D. 1655).

Corporate income taxes exceeded budget in August by \$4.3 million. Most of the positive variance is attributable to refunds being under budget by \$2 million and final payments being over budget by \$1.6 million. Like the individual income tax, the third estimated payment for corporate calendar year filers was due on September 15th. Final enactment of tax conformity may impact the third estimated payment. Also, enactment could have a large impact on payments made with tax year 2017 extension returns due in mid-October because of the deemed repatriation provision effective for tax year 2017. The deemed repatriation provision of the TCJA mandated businesses to recognize as one-time income accumulated earnings and profits of its foreign subsidiaries. With Maine's adoption of conformity, Maine Revenue Services estimates that our state will receive \$31.2 million in corporate income tax revenue due to this one provision of the law, \$22.9 million of which is projected for the current fiscal year.

Sales & Use Taxes

Revenue was \$5.1 million over budget for the month and \$8.4 million over budget for the fiscal year (+2.9%). Revenue is \$15.6 million, or 5.6 percent, over prior fiscal year-to-date collections.

Taxable Sales

Total taxable sales for the month of July (August revenue) were 6.1 percent over July 2017. The annual rate of change, excluding utilities, was 4.9 percent. Building supply sales were up 9.2 percent for the month and 8.3 percent for the year ending in July. Sales of taxable items in food stores were up 3.3 percent for the month and 3.8 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 3.2 percent for the month and up 2.7 percent for the year. Sales in other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were up 16.0 percent for the month and 8.0 percent for the year. Auto/transportation sector sales were up 5.6 percent for the month and up 3.3 percent for the year. Sales of meals and other prepared foods were up 3.5 percent for the month and 4.3 percent for the year. Lodging sales were up 0.3 percent for the month and 5.7 percent for the year. Business operating sales (primarily use tax paid by businesses) were up 17.4 percent for the month and 5.6 percent for the year.

Service Provider Tax

Revenue was \$0.8 million over budget for the month and over budget fiscal year-to-date by \$0.2 million. Revenue was \$0.6 million or 5.5 percent over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$2.6 million or 1.9 percent over budget for the month. For the first two months of the fiscal year individual income tax receipts are over budget by \$16.7 million (+7.4 percent). Revenue was \$23.1 million or 10.5 percent over prior fiscal year-to-date collections. Withholding receipts increased 5.6 percent compared to last August and are up 6.1 percent year over year.

Corporate Income Tax

Revenue was \$4.3 million, or 327.0 percent over budget for the month. For the fiscal year, corporate receipts are now \$6.6 million over budget, or +52.5 percent. Estimated payments were up 19.7 percent, and final payments were up 83.6 percent compared to last August. Revenue is \$6.6 million or 53.5 percent over collections for the same two-month period last fiscal year.

Cigarette & Tobacco Taxes

Cigarette and tobacco products tax revenue was \$2.1 million over budget for the month, and \$5.1 million over budget fiscal year-to-date. Revenue is \$6.0 million or 33.8 percent higher than the first two months of FY 2018. Last July's receipts on this revenue line were depressed because of a shifting of purchases by distributors from July to late June based on concerns surrounding the state government shutdown.

Insurance Companies Taxes

The Insurance Companies Taxes were over budget for the month by \$0.2 million, bringing the year-to-date variance to \$0.4 million, or 132 percent.

Estate Tax

The estate tax was \$0.4 million under budget for the month, and is now \$1.4 million under budget for the fiscal year.

Municipal Revenue Sharing

Revenue sharing was over budget in August by \$0.4 million. For the fiscal year revenue sharing is \$0.3 million over budget, or 2.7 percent.

Lottery

Lottery revenues were under budget for the month by \$0.8 million and are now \$1.1 million under budget year-to-date.

Other Revenues

Other Revenues were under budget for the month by \$2.0 million. Through the first two months of the fiscal year other revenues are \$2.8 million under budget.

Highway Fund

Motor fuel excise tax receipts were over budget in August by \$0.25 million. Total Highway Fund revenue was over budget for the month by \$0.8 million (+2.7 percent). Year-to-date motor fuel excise taxes are over budget by \$0.5 million, and total Highway Fund revenue exceeds budget by \$2.2 million or 3.6 percent. Year-over year growth for the motor fuel taxes and the total fund are 10.6 percent and 8.6 percent, respectively.

National Economy

A decade after the financial crisis, the U.S. economy is experiencing its strongest sustained growth since the 2008 collapse. Most economic forecasters are projecting third quarter GDP growth will be similar to the second quarter—4 percent or higher. After nearly a decade of economic growth of approximately 2 percent, doubling that level of growth has had a meaningful impact as evidenced by sales and income tax receipts growing among states across the country.

Maine Economy

Recent releases of 2017 data from the U.S. Census Bureau's American Community Survey (ACS) and the U.S. Bureau of Economic Analysis included positive news for Maine's economy. The ACS indicates that median household income in Maine increased 3.8 percent between 2016 (\$54,212) and 2017 (\$56,277). The percent of Maine's population with a bachelor's degree or higher has improved and is no longer statistically different from the U.S. rate. The migration data by age cohort shows an influx of 25-34 year olds in 2017, with net domestic in-migration of more than 4,000 for this age group. Overall, Maine's in-migration rate in 2017 ranked 17th among states, with 13 of 16 counties experiencing net in-migration. Maine's current population of 1,335,907 is at an all-time high.

GDP by metro area indicates that all three of Maine's metro areas saw real GDP increase from 2016 to 2017, with the Portland-South Portland metro area growing 1.7 percent, the Lewiston-Auburn metro area growing 1.4 percent, and the Bangor metro area growing 1.5 percent. Additionally, 2016 GDP for the Portland-South Portland metro area was revised up by \$311 million, taking the percent growth rate from 3.7 percent to 4.8 percent. The unemployment rate in Maine for August 2018 of 3.2 percent continues to remain at a historic low. Our state has now recorded 33 consecutive months of unemployment below 4%. The total nonfarm payroll jobs estimate shows total gains of 5,100 from August 2017 with private sector gains estimated at 4,600 jobs. Brent crude oil prices have spiked in recent weeks breaking the \$80 per barrel threshold for the first time since May and reaching its highest level since 2014. While Brent is still trading in a price range well below the key mark of \$100 per barrel, rising oil prices near the start of the home heating oil season could create a headwind for Maine consumers.

AP: mja

Attachments

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